

Ginnie Mae Multiclass Securities Program

In 1970, Ginnie Mae made history when it pooled government mortgage loans together and created the first mortgage-backed security (MBS). Ginnie Mae and the capital markets have evolved since 1970, and now play a pivotal role in improving the affordability of housing for all Americans by increasing the availability of investment capital to the housing sector. In 1994, Ginnie Mae broadened its investor base for MBSs with the introduction of an innovative and more efficient vehicle, the Real Estate Mortgage Investment Conduit (commonly known in the industry as a REMIC). The mortgage market has matured to include a variety of REMIC securities, each with a broad array of features and each with a different risk-return profile. In July 2004, Ginnie Mae complemented its REMIC product line with the launch of its stripped mortgage-backed securities (SMBS) Trust vehicle. The SMBS Trust product adds another investment type to sophisticated investors in Ginnie Mae MBSs seeking better market liquidity and management of MBS prepayment risk. Callable securities, another one of Ginnie Mae's Multiclass Securities products, give investors the option to redeem previously issued securities, allowing greater hedging flexibility.

Nature of Program: The Ginnie Mae Multiclass Securities program is a vehicle that increases the liquidity of Ginnie Mae MBSs and attracts new sources of capital for federally insured or guaranteed loans. A REMIC is a type of pay-through bond characterized by a multiclass or multi-tranched serialized structure. REMICs are partitioned into several tranches of bonds of serialized priority by which the bonds are redeemed. Ginnie Mae REMICs are collateralized by Ginnie Mae MBSs, which are in turn backed by FHA, VA, RHS, and PIH mortgage loans.

Ginnie Mae REMICs direct principal and interest payments from the underlying MBSs to classes (tranches) with different principal balances, interest rates, average lives, prepayment characteristics, and final maturities. This enables investors with different investment horizons, risk-reward preferences, and asset-liability management requirements to purchase mortgage securities that are tailored to their needs.

While REMICs add the flexibility for dealers to tailor cash flows to investors with duration concerns, the SMBS Trust product allows sophisticated investors to reduce (or increase) prepayment risks by isolating and combining various interest only (IO) and principal only (PO) cash flow components.

Callable securities are structured through a Grantor Trust vehicle and consist of the following classes: Class A is the callable class that receives the pass-through cash flow, and Class B is the call class that can call Class A securities and exchange them for the underlying collateral at any time after the lockout period.

Ginnie Mae is a government-owned, publicly managed corporation that has never failed to fulfill its responsibility as guarantor of its securities. Ginnie Mae's obligations are backed by the full faith and credit of the United States Government. Nevertheless, investors considering an investment in a Ginnie Mae REMIC should read the related offering circular and offering circular supplement, and consult their investment advisors to ensure

that they fully understand the risks, particularly the prepayment and market risks associated with an investment in a REMIC security.

Applicant Eligibility: A dealer must meet the following six requirements to participate in the Ginnie Mae Multiclass Securities program:

- Apply and be approved;
- Demonstrate to Ginnie Mae's satisfaction its capacity to accumulate the eligible assets needed for a proposed structured securities issuance;
- Meet the minimum capital requirement of \$250 million in shareholders' equity or partnership capital, evidenced by the dealer's most recent audited financial statements, which must have been issued within the preceding 12 months;
- Demonstrate good standing with, and have been responsible for, at least one structured transaction with Fannie Mae or Freddie Mac, or demonstrate to Ginnie Mae's satisfaction the capability to consummate a structured transaction;
- Represent the structural integrity of the proposed issuance under all cash flow scenarios and demonstrate to Ginnie Mae's satisfaction its ability to indemnify Ginnie Mae for a breach of this representation; and
- Comply, and obtain compliance from the participants that it selects, with Ginnie Mae's participation requirements and policies regarding participation by minority- and women-owned businesses.

Legal Authority: Section 306(g) of the National Housing Act (12 U.S.C. 1721(g)).

Administering Office: Government National Mortgage Association (Ginnie Mae), U.S. Department of Housing and Urban Development, Washington, DC 20410.

Information Sources: Administering office; Office of Capital Markets.

On the Web: www.ginniemae.gov

Current Status: Active.